# IRAQ RELIEF AND RECONSTRUCTION FUND 1: REPORT ON APPORTIONMENTS, EXPENDITURES, AND CANCELED FUNDS

SIGIR 11-007 JANUARY 25, 2011

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Special Inspector General for IRAQ Reconstruction

**Summary of Report: SIGIR 11-007** 

#### Why SIGIR Did This Audit

In April 2003, Public Law (P.L.) 108-11 appropriated \$2.48 billion to the President for humanitarian assistance, rehabilitation, and reconstruction in Iraq, referred to as the Iraq Relief and Reconstruction Fund 1 (IRRF 1). The Office of Management and Budget (OMB) apportioned these funds, for the most part, to the U.S. Agency for International Development (USAID), the Department of Defense (DoD)/U.S. Army, the Department of State (DoS), and the U.S. Department of the Treasury (Treasury). The funds were available for new obligations through September 30, 2004, and were in expired accounts for the next five years until September 30, 2009. While in expired accounts, the funds were only available to pay existing obligations or legitimate adjustments to obligations incurred during the period. They were not available for new obligations. As of September 30, 2009, the account was closed, and remaining funds were not available for any purpose.

The Special Inspector General for Iraq Reconstruction (SIGIR) is reporting on the status of the various funds used for Iraq relief and reconstruction. Our objective for this report is to address the status of IRRF 1, including the amounts apportioned to U.S. government organizations, obligated during the period of availability, adjusted during the five years the funds were in expired accounts, and canceled when the account was closed.

#### Recommendations

This report does not contain recommendations.

#### **Management Comments**

Because this report did not contain any recommendations, the responsible agencies were not required to, and did not, submit comments.

#### **January 25, 2011**

# IRAQ RELIEF AND RECONSTRUCTION FUND 1: REPORT ON APPORTIONMENTS, EXPENDITURES, AND CANCELED FUNDS

#### What SIGIR Found

During fiscal years (FYs) 2003 and 2004, OMB apportioned virtually all of the \$2.48 billion appropriated for IRRF 1. OMB apportioned \$2.25 billion for new obligations with most going to 3 organizations—USAID received \$1.62 billion; DoD/U.S. Army received \$518 million; and DoS received \$101 million. P.L. 108-11 also specified that funds were to be used to fully reimburse accounts administered by DoS, Treasury, and USAID for related obligations incurred prior to enactment. OMB apportioned about \$239 million to meet these previously incurred obligations with \$212 million going to USAID, which subsequently returned \$10 million of the funds to OMB. DoS received about \$25 million as reimbursement for its prior obligations. This report does not address the status of the funds that OMB provided for these previously incurred obligations.

As of September 30, 2004, the organizations' reports on budget execution and budgetary resources show that virtually all of the \$2.25 billion had been obligated and only \$257,000 was not obligated. In the first 2 years of the 5-year expired-funds period, about \$28 million was deobligated and reobligated, accounting for virtually all of the deobligations/reobligations during the expired funds period. DoD/U.S. Army deobligated/reobligated the most funds—deobligating \$14.52 million in FY 2005 and reobligating \$10.66 million in that same fiscal year and the remainder in FY 2006—but these funds still accounted for less than 3% of its \$518.28 million in apportioned funds.

The IRRF 1 account was closed, and funds were canceled as of September 30, 2009, with \$18.46 million being returned to Treasury's general fund. Most of the funds were returned by USAID (\$14.13 million) and DoS (\$3.53 million). As of that date, USAID had about \$2.08 million of obligations incurred under IRRF 1 that will be paid from other available funds. Furthermore, USAID had a negative cash balance in its account as of September 30, 2009, and, as a result, its account was not closed but was adjusted in FY 2010. USAID officials said that the negative cash balance occurred because of an erroneous journal entry. They said that the need for adjustment started in FY 2006 and adjustments for the account will be finalized in early FY 2011.

The organizations expended IRRF 1 under 14 relief and reconstruction programs. USAID had 7 programs, and its "Restore Economically Critical Infrastructure" program was the largest with expenditures of \$1.12 billion. USAID primarily used IRRF 1 to help in (1) rebuilding Iraq's roads and ports, (2) facilitating transportation of humanitarian assistance, and (3) restoring the power supply to health, educational, and water supply facilities. DoD/U.S. Army had 3 programs: the 2 largest used \$464.96 million to help restore Iraq's electricity and oil sectors.

IRRF 1 was quickly apportioned by OMB, and the organizations receiving funds also acted quickly to obligate the funds. As the funds moved from available for obligation, to expired funds, and then to canceled funds and closed account, no significant issues related to IRRF 1 apportionment, obligation, expenditure, and cancellation were identified.



#### SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 25, 2011

MEMORANDUM FOR THE U.S. SECRETARY OF STATE

U.S. SECRETARY OF DEFENSE

U.S. SECRETARY OF THE TREASURY

ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL

DEVELOPMENT

DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Iraq Relief and Reconstruction Fund 1: Report on Apportionments, Expenditures, and Canceled Funds (SIGIR 11-007)

We are providing this audit report for your information and use. The report discusses the status of funds provided under Public Law 108-11, referred to as Iraq Relief and Reconstruction Fund 1. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. This audit was conducted as Project 1014a. This report does not contain recommendations; accordingly, the addressees were not required to provide comments and elected not to do so.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ <a href="mailto:glenn.furbish@sigir.mil">glenn.furbish@sigir.mil</a> or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 607-1346/ <a href="mailto:jason.venner@sigir.mil">jason.venner@sigir.mil</a>.

Stuart W. Bowen, Jr. Inspector General

Stoward. Barrey.

cc: U.S. Ambassador to Iraq
U.S. Under Secretary of Defense (Comptroller)
Commander, U.S. Central Command
Commanding General, U.S. Forces—Iraq
Commanding General, U.S. Army Corps of Engineers

Mission Director, U.S. Agency for International Development

# **Table of Contents**

Introduction	1
Background	1
Objective	3
IRRF 1 Apportioned, Obligated, and Expended	4
OMB Apportioned IRRF 1	4
Most Funds Obligated in the First Year and Few Funds Expired	5
Funds Deobligated and Reobligated during Expired Funds Period	7
Small Amount Canceled at End of FY 2009 and Some Obligations Remain	7
<b>Concluding Observation</b>	10
Appendix A—Scope and Methodology	11
Appendix B—IRRF 1 Expenditures by Organization and Program	13
Appendix C—Acronyms	16
Appendix D—Audit Team Members	17
Appendix E—SIGIR Mission and Contact Information	18



# Iraq Relief and Reconstruction Fund 1: Report on Apportionments, Expenditures, and Canceled Funds

**SIGIR 11-007** 

January 25, 2011

#### Introduction

Public Law (P.L.) 108-106, as amended, requires that the Special Inspector General for Iraq Reconstruction (SIGIR) conduct audits of the management and expenditure of funds for Iraq reconstruction activities, including the transfer of such funds between and among U.S. government organizations. As a part of this effort, SIGIR is reporting on the status of the appropriated funds and other funds, such as the Development Fund for Iraq and Vested and Seized Funds<sup>1</sup>, that have been used in Iraq relief and reconstruction efforts.

This report addresses Iraq Relief and Reconstruction Fund 1 (IRRF 1), the initial U.S. appropriated funds for Iraq relief and reconstruction. In April 2003, P.L. 108-11 appropriated to the President \$2.475 billion for necessary expenses for humanitarian assistance in and around Iraq, and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.

#### **Background**

The funds provided by P.L. 108-11, known as IRRF 1, were available for obligation until September 30, 2004, to pay costs including: (1) water/sanitation infrastructure; (2) feeding and food distribution; (3) relief efforts related to refugees and others; (4) electricity; (5) healthcare; (6) telecommunications; (7) economic and financial policy; (8) education; (9) transportation; (10) rule of law and governance; (11) humanitarian demining; and (12) agriculture. The P.L. also directed that these funds were to be used to reimburse three U.S. government organizations for Iraq relief and reconstruction obligations incurred prior to the law's enactment.

After an appropriation act, the Office of Management and Budget (OMB), in accordance with its Circular A-11<sup>2</sup>, approves apportionments that establish the amount of obligations that can be incurred for a specific time period or activity. OMB apportions funds using Treasury Appropriation Fund Symbols (TAFS) that designate the organization, the period of availability to incur new obligations, and the Treasury account symbol. For the IRRF 1 account, the symbol was 11-1096, and the period of availability for new obligations was FYs 2003 and 2004. OMB made apportionments in both FY 2003 and FY 2004.

The P.L. specified that funds were to be apportioned to only the Department of State (DoS), United States Agency for International Development (USAID), the Department of Treasury

.

<sup>&</sup>lt;sup>1</sup> Development Fund for Iraq: Department of Defense Needs To Improve Financial and Management Controls, SIGIR 10-020, 7/7/2010, and Guidance Needed for Use of Residual Iraqi Vested and Seized Asset Funds, SIGIR 11-002, 10/15/2010

<sup>&</sup>lt;sup>2</sup> This Circular, in part, provides instruction on budget execution including apportionments and budget execution reports.

(Treasury), the Department of Defense (DoD), and the Department of Health and Human Services.

- DoS' mission is to create a more secure, democratic, and prosperous world for the American people and the international community. The Secretary of State, DoS' chief executive officer, answers directly to the President. The Ambassador to Iraq, on behalf of the President and under the guidance of the Secretary of State, is responsible for the direction, coordination, and supervision of all U.S. government employees, policies, and activities in Iraq, except those under the command of a U.S. military commander and employees seconded to international organizations. Five DoS bureaus provided support to the U.S. Mission–Iraq and were involved in IRRF 1 programs.
- USAID, an independent federal government agency that receives overall foreign policy guidance from the Secretary of State, extends assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms. USAID implemented Iraq programs in four strategic areas: restoring essential infrastructure, supporting essential health and education, expanding economic opportunity, and improving efficiency and accountability of government. To execute its mission in Iraq, the USAID Mission office was established in Iraq.
- Treasury's responsibilities include advising the President on economic and financial issues, encouraging sustainable economic growth, and fostering improved governance in financial institutions. Its Office of Technical Assistance provided advisory services to the Government of Iraq that focused on establishing central bank functions and a nationwide payment system among local banks and the central bank. The Office awarded contracts and conducted activities in Iraq under six major functions: budget policy and management; finance enforcement; banking and financial services; government debt issuance and management; tax policy and administration; and operations.
- DoD's mission is to provide the military forces needed to deter war and to protect the security of our country. It created organizations to manage and support Iraq relief and reconstruction programs and activities. The Deputy Secretary of Defense designated the U.S. Army as the Executive Agent for the Iraq effort, providing administrative, logistics, and contracting support. Based on this designation, OMB apportioned virtually all of IRRF 1 for DoD directly to the U.S. Army.
- The Department of Health and Human Services, although identified in the P.L. as a possible recipient of IRRF 1, was not apportioned monies by OMB.

After receiving an apportionment, U.S. government organizations continue with the process of spending funds by incurring obligations, which are the dollar amounts of orders placed, contracts awarded, or services received that require future payment. An obligation is recorded when an authorized agent enters into a legally binding agreement to purchase specific goods or services. The recorded obligation is reduced by the amount of payments—expenditures—made on bills received, and unpaid obligations are referred to as unliquidated obligations. When all goods and services have been received and paid for, the obligation is considered liquidated, and any remaining balance should be deobligated to make the funds available for other uses. If some of the apportioned funds are not obligated at the end of the account's period of availability, the budget authority for these funds expires, and the funds remain available for five additional fiscal

years to adjust obligations chargeable within the scope of the original contract. At the end of the fifth fiscal year, the account is considered closed, and any remaining funds are canceled.

IRRF 1 was available for new obligations during FY 2003 and FY 2004. After September 30, 2004, any unobligated balance was considered expired and remained available only to cover legitimate obligation adjustments for five years, through September 30, 2009. At that time, the IRRF 1 account was closed, and any remaining funds were canceled—no longer available for obligation or expenditure for any purpose. Any outstanding obligations at that time would have to be paid from a current appropriation established for the same general purpose.

#### **Objective**

Our objective for this report is to address the status of IRRF 1, including the amounts apportioned to U.S. government organizations, obligated during the period of availability, adjusted during the five years the funds were in expired accounts, and canceled when the account was closed.

For a discussion of the audit scope and methodology, see Appendix A. For IRRF 1 expenditures by organization and program, see Appendix B. For a list of acronyms, see Appendix C. For the audit team members, see Appendix D. For the SIGIR mission and contact information, see Appendix E.

### IRRF 1 Apportioned, Obligated, and Expended

During FYs 2003 and 2004, OMB apportioned virtually all of the \$2.48 billion IRRF 1 appropriation. For new obligations, OMB apportioned \$2.25 billion, with most funds going to 3 organizations—USAID received \$1.62 billion; the DoD/U.S. Army received \$518 million; and DoS received \$101 million. Because P.L. 108-11 specified that funds were also to be used to fully reimburse accounts administered by DoS, Treasury, and USAID for related obligations incurred prior to the Act, OMB apportioned a net of about \$229 million to meet these previously incurred obligations, including \$202 million to USAID.

The organizations acted quickly to obligate the apportioned funds for new obligations. As of September 30, 2004, after which any unobligated funds would expire, all but \$257,000 had been obligated. Even though DoD/U.S. Army was apportioned over \$52 million in the last 2 weeks of FY 2004, it obligated all but a small amount. In FYs 2005 and 2006, the first 2 years of the 5-year expired funds period, about \$28 million of funds were deobligated and reobligated, accounting for virtually all of the deobligations/reobligations during the expired funds period. DoD/U.S. Army had the most funds deobligated/reobligated—\$14.52 million deobligated in FY 2005 and then reobligated in FYs 2005 and 2006—but these funds still accounted for less than 3% of its \$518.28 million in apportioned funds.

As of September 30, 2009, the IRRF 1 account was closed, and \$18.46 million in unexpended funds were canceled. These funds were returned to the U.S. Treasury's general fund, including \$14.13 million from USAID and \$3.53 million from DoS. However, USAID had \$2.08 million in obligations remaining at that time and recorded these obligations against other available funds.

#### **OMB Apportioned IRRF 1**

Shortly after P.L. 108-11 was enacted in April 2003, OMB began apportioning IRRF 1. The first apportionments for new obligations were made in May and June 2003 to USAID, for about \$315 million. During July and August 2003, OMB apportioned additional funds to USAID and also apportioned smaller amount to DoS and Treasury. In September 2003, DoD/U.S. Army was apportioned \$466 million. By the end of FY 2003, OMB had apportioned about \$2.04 billion—more than 90% of the funds available for new obligations—to 4 organizations. Table 1 shows the total funds apportioned for new obligations by OMB in FYs 2003 and 2004 and the organizations receiving the funds.

Table 1—OMB Apportionments of IRRF 1 for New Obligations during FYs 2003 and 2004 (\$ in thousands)

**Amounts Apportioned** FY 2003 Organization **FY 2004** Total **USAID** \$1,526,109 \$97,200 \$1,623,309 DoD/U.S. Army 466,000 52,279 518,279 DoS 100,751 39.269 61.482 U.S. Treasury 3,750 3,729 -21 DoD/Office of the Secretary of Defense 0 60 60

\$2,035,128

\$211,000

\$2,246,128

Source: SIGIR analysis of OMB and Treasury data.

Total

The IRRF 1 appropriation of \$2.475 billion was intended primarily to fund humanitarian and reconstruction programs in and around Iraq; however, P.L. 108-11 specified that DoS, Treasury, and USAID were to be fully reimbursed for obligations incurred for the law's purposes prior to enactment. These prior obligations had been recorded against funds appropriated for foreign operations, export financing, and related operations. Accordingly, in addition to funds for new obligations, OMB apportioned \$238.85 million of IRRF 1 to meet those previously incurred obligations. Again, USAID received the bulk of these funds, including \$100 million to reimburse its Development Assistance Program (USAID subsequently returned \$10 million of these funds to OMB); \$100 million for its Economic Support Fund; and \$12 million for its Transition Initiatives Program. DoS received about \$24.60 million to reimburse its International Narcotics and Law Enforcement Program, and Treasury received \$2.25 million for its International Affairs Technical Assistance Program. This report does not address the status of those funds that OMB provided for these previously incurred obligations. Accordingly, the amounts of expenditures and obligations in this report do not include those funds apportioned by OMB for prior obligations.

#### Most Funds Obligated in the First Year and Few Funds Expired

Although initial IRRF 1 apportionments were not made until May and June 2003—with about 4 months remaining in FY 2003—most of these funds were obligated by the end of FY 2003. Table 2 shows that apportionments in FY 2003 totaled \$2.04 billion. The organizations obligated \$1.96 billion (or 96% of the funds), with only \$74 million remaining unobligated at the end of the FY 2003.

Table 2—IRRF 1 Apportionments and Obligations at the End of FY 2003 (\$ in thousands)

Organization	Apportioned in FY 2003	Obligated in FY 2003	Unobligated at end of FY 2003
USAID	\$1,526,109	\$1,477,089	\$49,020
DoD/U.S. Army	466,000	454,765	11,235
DoS	39,269	28,267	11,002
U.S. Treasury	3,750	520	3,230
Total	\$2,035,128	\$1,960,641	\$74,487

Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.

As shown in Table 2, the Treasury is the only organization that that did not obligate the vast majority of it funds during FY 2003. At the end of the year, it had obligated only about 14% of its apportioned IRRF 1 funds.

Moreover, by the end of FY 2004, after which the IRRF 1 account was expired, virtually all apportioned funds had been obligated. Table 3 shows the amounts apportioned, obligated, and expired.

Table 3—IRRF 1 Apportionments, Obligations, and Expired Funds at the End of FY 2004 (\$ in thousands)

Organization	Apportioned	Obligated	Expired
USAID	\$1,623,309	\$1,623,146°	\$163
DoD/U.S. Army	518,279	518,246	33
DoS	100,751	100,691	60
U.S. Treasury	3,729	3,728	1
DoD/Office of the Secretary of Defense	60	60	0
Total	\$2,246,128	\$2,245,871	\$257

#### Note

Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.

As shown, the organizations obligated almost all available funds before the funds expired. We noted that DoD/U.S. Army was apportioned \$52.28 million by OMB with about 2 weeks remaining in FY 2004 and was able to obligate all except \$33,000 by the end of September. If DoD/U.S. Army had not obligated these funds by the end of FY 2004, they would have expired and therefore would not have been available for new obligations.

<sup>&</sup>lt;sup>a</sup> USAID's obligated amount includes (1) a \$5 million grant to the U.S. Trade and Development Agency, and (2) a \$461 thousand reduction to adjust for a previously reported improper obligation.

#### Funds Deobligated and Reobligated during Expired Funds Period

The organizations' reports for IRRF 1 show that about \$28 million of funds were deobligated and reobligated during FYs 2005 and 2006, the first 2 years of the 5-year expired funds period. Virtually all of the deobligations/reobligations occurred during these two years. Deobligations and reobligations are permissible during the expired funds period as long as the available funds are used for adjustments to or payments of valid existing obligations and not for new obligations. Numerous SIGIR reports have discussed scope changes and cost increases on Iraq relief and reconstruction projects; and with scope changes and cost increases on projects, deobligations and reobligations would be expected. Highlights on deobligations/reobligations are:

- DoD/U.S. Army deobligated/reobligated the most funds, but these still accounted for less than 3% of its \$518.28 million in apportioned funds. It deobligated \$14.5 million in FY 2005 and reobligated \$10.7 million in that same fiscal year and the remainder in FY 2006.
- DoS deobligated \$7.57 million in FY 2005 and reobligated all of the funds in the same fiscal year.
- USAID's deobligations/reobligations of expired funds were minimal relative to its total apportionment of \$1.62 billion; in FY 2005 it deobligated \$3.15 million and reobligated \$2.57 million.
- Treasury deobligated and reobligated about \$3.46 million in FYs 2005 and 2006, about 93% of its total \$3.73 million apportionment. Because this involved such a large percentage of Treasury's funds, we requested details about these transactions. However, a Treasury official stated that the Treasury's central accounting system had only three years of transaction history and, therefore, details were not available.

#### Small Amount Canceled at End of FY 2009, and Some Obligations Remain

As of September 30, 2009, the IRRF 1 account had \$18.46 million that had not been expended. These funds were canceled and returned to Treasury's general fund. Table 4 shows that USAID, which returned \$14.13 million, accounted for most of the canceled funds. DoS accounted for another \$3.53 million of the canceled funds.

Table 4—Amount of IRRF 1 Received, Expended, and Canceled at the End of FY 2009 by Organization (\$ in thousands)

Organization	Amount Received	Amount Expended	Amount Canceled	Percentage Expended
USAID	\$1,623,309	\$1,609,175	\$14,134	99
DoD/U.S. Army	518,279	518,037	242	100
DoS	100,751	97,219	3,532	97
U.S. Treasury	3,729	3,205	524	86
DoD/Office of the Secretary of Defense	60	28	32	47
Total	\$2,246,128	\$2,227,664	\$18,464	99

Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.

The organizations expended IRRF 1 under 14 relief and reconstruction programs. USAID had 7 programs, and its "Restore Economically Critical Infrastructure" program was the largest with expenditures of \$1.12 billion. USAID primarily used IRRF 1 to help in (1) rebuilding the country's roads and ports, (2) facilitating transportation of humanitarian assistance, and (3) restoring the power supply to health, educational, and water supply facilities. DoD/U.S. Army had 3 programs: the 2 largest used \$464.96 million to help restore Iraq's electricity and oil sectors. Additional details on the amounts expended under the relief and reconstruction programs are in Appendix B. The IRRF 1 program categories and expenditure amounts shown in Appendix B are based on data reported by the organizations, and SIGIR has neither audited nor verified this data.

IRRF 1 was closed as of September 30, 2009, and unexpended funds were returned to Treasury's general fund. However, organizations that had received the funds continue to be responsible for paying any remaining obligations that existed when the funds were canceled. To pay these obligations, the organizations can use only other currently available funds for similar purposes. For IRRF 1, USAID was the only organization reporting significant obligations as of September 30, 2009. USAID officials stated that \$2.08 million in obligations remained after the closure of IRRF 1 and that these obligations were with 3 different contractors, with \$1.20 million in obligations with 1 contractor. They said that the amounts were reobligated in FY 2010 using USAID's Economic Support Funds. USAID officials stated that by December 2010, \$375,000 had been disbursed, and an unliquidated balance of \$1.71 million remains, pending contract closeouts.

USAID also had an "abnormal (negative) cash balance" in its IRRF 1 account as of September 30, 2009. As a result of this negative cash balance, its account was adjusted in FY 2010. According to USAID officials, the negative cash balance occurred because of an erroneous journal entry. They said that the need for adjustments started in FY 2006 and is expected to be completed in early 2011 when adjustments for the account are finalized.

We also identified concerns with DoS' reporting on IRRF 1 for FYs 2006, 2007, and 2008. Because the reporting showed unusual entries (including negative expenditures and negative obligations), we requested documentation that would provide the basis for the entries. A senior DoS official acknowledged that (1) the organization does not have a good explanation for the

entries and (2) errors were probably made. After we receive and review the requested documentation, we will consider whether further reporting is warranted.

# **Concluding Observation**

IRRF 1 was quickly apportioned by OMB, and the organizations receiving funds also acted quickly to obligate the funds. As the funds moved from available for obligation, to expired funds, and then to canceled funds and closed account, no significant issues related to IRRF 1 apportionment, obligation, expenditure, and cancellation were identified.

# **Appendix A—Scope and Methodology**

In May 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) announced Project 1014 with an objective to determine the extent to which funds appropriated for the Iraq Relief and Reconstruction Fund (IRRF) have been obligated and liquidated. This report focuses on the first IRRF appropriation, known as IRRF 1, and is designated as Project 1014a. Our objective for this report is to address the status of IRRF 1 including the amounts apportioned to U.S. government organizations, obligated during the period of availability, adjusted during the five years the funds were in expired accounts, and canceled when the account was closed. This audit was performed by SIGIR under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work from July through November 2010, primarily in the Washington D.C. metropolitan area.

To accomplish our objectives we held discussions with and/or analyzed documents provided by officials from the following organizations: Department of State (DoS); U.S. Department of the Treasury (Treasury); U.S. Agency for International Development (USAID); Office of the Secretary of Defense; two Department of Defense (DoD) organizations—U.S. Army and Defense Finance and Accounting Service—and U.S. Trade and Development Agency. We were unable to meet with Office of Management and Budget officials. However, we provided OMB with a copy of the report for review.

Key documents used in our audit were the Governmentwide Accounting System's Nonexpenditure Transfer Authorizations by which the U.S. Treasury adjusted the amounts of IRRF 1 that was apportioned to the organizations. Other key documents were the Standard Form 133s, Reports on Budget Execution and Budgetary Resources. The SF 133s provide data on the organizations' budgetary resources, the amounts obligated, changes in obligation balances, and the amounts of expenditures. Data for SF 133s are submitted electronically each quarter by all Executive Branch agencies on the status of each appropriation account. The fourth quarter (fiscal year end) submission of SF 133 data is certified by each organization's Chief Financial Officer in that obligation balances in each account reflect proper existing obligations, and that expenditures from each account are proper. We also utilized data from the Combined Statement of Receipts, Outlays, and Balances of the United States Government for FYs 2003–2009. Furthermore, we reviewed other reports and documents supporting obligations and expenditures of funds by each organization.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

#### **Use of Computer-processed Data**

In performing this audit, SIGIR obtained computer generated reports and data from a number of different systems including the Treasury's Governmentwide Accounting System. In addition to

the Treasury's governmentwide system, each of the organizations involved in our audit had their own accounting system(s) that generated data on obligations and expenditures. Accordingly, we did not independently verify the detailed computer generated information, but because these are basic accounting systems of the U.S. government and the involved organizations, we concluded that the computer-processed information was sufficiently reliable and the best available for purposes of our audit.

#### **Internal Controls**

In conducting this audit, we reviewed internal management and financial controls for administering and reporting on IRRF 1. As a key part of these controls, we reviewed Treasury's Financial Manual addressing the requirement to establish accounts and the OMB Circular A-11 requirements for preparing the SF 133s. We concluded that controls governing the process for regular and routine reporting on apportioned funds, obligations, and expenditures were sufficiently reliable to provide a sound basis for overall reporting on the status of IRRF 1. We presented the results of our review on internal controls in the body of this report as appropriate.

# **Appendix B—IRRF 1 Expenditures by Organization** and **Program**

Beginning in 2004, SIGIR's Quarterly Reports to the Congress have provided data on IRRF 1 expenditures by organization and by relief and reconstruction program. USAID reported expenditures in seven programs (not including administrative expenses), and its "Restore Economically Critical Infrastructure" program was the largest with expenditures of \$1.12 billion. DoD/U.S Army reported expenditures in 3 programs, and the "Restore Iraq Electricity" program was its largest with \$299.9 million in expenditures. DoS reported three smaller programs, and Treasury had one program.

#### **U.S. Agency for International Development**

USAID was apportioned \$1.62 billion. When the account was closed as of September 30, 2009, USAID had expended \$1.61 billion of these funds, and the unexpended balance of \$14.13 million was returned to the Treasury's general fund. Figure 1 shows USAID's reported expenditures by program.

Total: \$1,609 \$0 \$200 \$400 \$600 \$800 \$1,000 \$1,200 Restore Economically Critical Infrastructure Improve Efficiency and Accountability of Government Support Education, Health, and Social Services **Expand Economic** Opportunity<sup>a</sup> Other

Figure 1—USAID IRRF 1 Expenditures by Program (\$ in millions)

#### Note:

Source: SIGIR July 30, 2010 Quarterly Report, Appendix C.3.

USAID used IRRF 1 primarily to help restore Iraq's economically critical infrastructure, including rebuilding the country's roads and ports. It also awarded contracts to facilitate transportation of humanitarian assistance, and to restore the power supply to health and educational facilities, and water supply facilities. Furthermore, it strived to improve the efficiency and accountability of the Iraqi government by providing technical assistance to local

<sup>&</sup>lt;sup>a</sup> This program includes expenditures of \$5 million under a USAID grant to the U.S. Trade and Development Agency.

<sup>&</sup>lt;sup>b</sup> This includes three programs—Office of Transition Initiatives, Office of Foreign Disaster Assistance, and Program Support and Development of Gulf Region—and administrative expenses of \$15 million.

administrations in managing and delivering critical services such as potable water, education, and healthcare.

#### DoD/U.S. Army

DoD/U.S. Army was apportioned \$518.28 million. When the account was closed as of September 30, 2009, DoD/U.S. Army had expended \$518.04 million, and the unexpended balance of \$242,000 was returned to the Treasury's general fund. Figure 2 shows DoD/U.S. Army reported expenditures by program.

Restore Iraq Electricity
Restore Network

Figure 2—DoD/U.S. Army IRRF 1 Expenditures by Program (\$ in millions)

Source: SIGIR July 30, 2010 Quarterly Report, Appendix C.3.

DoD/U.S. Army used IRRF 1 primarily to help restore Iraq's electricity and oil sectors. The effort to restore Iraq electricity focused on adding capacity to the Iraq power grid by constructing, replacing, and expanding hundreds of transmission towers and transmission lines; replacing or restoring turbines; and replacing or rehabilitating power substations. The effort to restore Iraq oil focused on restoring the country's oil production, oil refining, and gas processing capacity to pre-war levels. Contracts were awarded to respond to oil spills, assess conditions of oil facilities throughout the country, and to restore and repair the country's system of oil and gas wells, pump stations, refineries, processing plants, and pipelines.

Within DoD, the Office of the Secretary of Defense also was apportioned \$60,000 of IRRF 1 in FY 2004 and obligated the full amount by the end of the fiscal year. In FY 2009, the Office had expended \$28,000 and returned the \$32,000 balance to Treasury's general fund. These funds were used by the Defense Institute of International Legal Studies to support trials to prosecute members of the former Iraq regime for crimes. The support involved a three-week training course for Iraqi judges and prosecutors.

#### **Department of State**

DoS was apportioned \$100.75 million. When the account was closed as of September 30, 2009, DoS had expended \$97.22 million, and the unexpended balance of \$3.53 million was returned to the Treasury's general fund. Figure 3 shows DoS' reported expenditures by program.

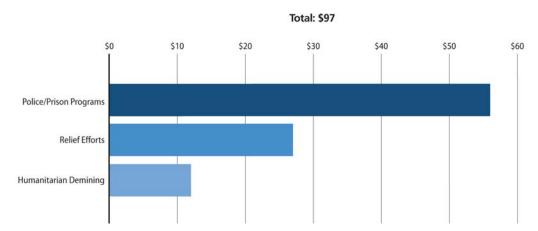


Figure 3—DoS IRRF 1 Expenditures by Program (\$ in millions)

#### Note:

<sup>a</sup>These amounts and the total expenditures are less than the amounts reported in SIGIR July 30, 2010 Quarterly Report, Appendix C.3 because the Quarterly Report amounts include IRRF 1 apportionments that reimbursed DoS for obligations incurred prior to Public Law 108-11.

Source: Schedule provided by DoS Financial Management Official.

Most of DoS IRRF 1 was used to help the Iraqi government professionalize its civil law enforcement institutions and the Iraqi Police Service by providing police advisors and experts. In addition, DoS funded corrections advisors and trainers to help Iraq develop its capacity to operate its prison system, and funded the construction and expansion of prisons throughout the country.

#### **Department of the Treasury**

Treasury was apportioned \$3.73 million. When the account was closed as of September 30, 2009, Treasury had expended \$3.21 million, and the unexpended balance of \$524,000 was returned to the Treasury's general fund. Treasury's Office of Technical Assistance used the funds to provide experts on financial issues to the Government of Iraq, to re-establish the Iraqi banking system, and to help the Ministry of Finance and other ministries prepare their first budgets. The Office also provided the Iraqi government technical assistance on economic reforms, tax and tariff policy, and other banking issues.

# **Appendix C—Acronyms**

Acronym	Description	
DoD	Department of Defense	
DoS	Department of State	
FY	Fiscal Year	
IRRF	Iraq Relief and Reconstruction Fund	
OMB	Office of Management and Budget	
SIGIR	Special Inspector General for Iraq Reconstruction	
USAID	United States Agency for International Development	

# **Appendix D—Audit Team Members**

This report was prepared and the audit conducted under the direction of Glenn D. Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

**David Childress** 

George Salvatierra

# **Appendix E—SIGIR Mission and Contact Information**

SIGIR's Mission	<ul> <li>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</li> <li>oversight and review through comprehensive audits, inspections, and investigations</li> <li>advice and recommendations on policies to promote economy, efficiency, and effectiveness</li> <li>deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse</li> <li>information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports</li> </ul>
Obtaining Copies of SIGIR Reports and Testimonies	To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil).
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:  • Web: www.sigir.mil/submit_fraud.html  • Phone: 703-602-4063  • Toll Free: 866-301-2003
Congressional Affairs	Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-604-0368 Email: hillel.weinberg@sigir.mil
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